

New Markets Tax Credit Program

Frequently Asked Questions

Office of Economic Development – 12/7/09

What is the New Markets Tax Credit Program?

- The federal New Markets Tax Credit (“NMTC”) program provides a 39% credit against federal income taxes for business and real estate investments located in low-income areas
- The tax credit is claimed over a 7-year period

What areas qualify for NMTCs?

- In general, census tracts with a poverty rate of at least 20% or median income up to 80% meet the minimum qualifications
- City’s application committed to prioritize investment in areas with deeper levels of distress (25% poverty or 70% median income or 1.25 times citywide unemployment rate)

Who distributes the NMTCs?

- Only certain entities, known as Community Development Entities (“CDEs”), have the right to distribute tax credits and must obtain an allocation through the federal Treasury Department’s highly competitive application process
- CDEs must have a primary mission of serving/investing in low-income areas
 - Cities and other public entities generally do not have such a primary mission and therefore need to create a separate entity in order to qualify for tax credits
- OED has created a CDE known as the Seattle Investment Fund LLC to apply for tax credits

How do business and real estate projects benefit?

- NMTCs leverage equity for business and real estate projects
- In exchange for receiving tax credits, a NMTC investor is willing to make an upfront equity investment representing approximately 67% of the tax credit amount received.
- Hypothetical \$20 million project
 - Tax credits = \$7.8 million (i.e., \$20 million x .39).
 - Equity investment = \$5.2 million (i.e., \$7.8 million x .67)

What are some examples of NMTC-eligible projects?

- Businesses seeking to acquire and/or upgrade facilities
- Commercial real estate projects
- Community facilities
- Mixed-use projects with at least 20% income coming from non-residential sources
 - Housing projects with less than 20% income from commercial or other non-residential sources are ineligible
 - Housing projects using low-income housing tax credits are also ineligible

In the current economic recession, how active is the NMTC program –i.e., does anyone currently need tax credits?

- Numerous investors (including Community Reinvestment Act rated banks) are actively seeking NMTCs
- Seven year NMTC period is considered lower risk than 15+ year period for low income housing tax credits

- Economic downturn has slightly reduced the expected amount of equity investment for projects

Why does the City of Seattle need to obtain its own allocation of NMTCs?

- OED will maximize the availability of NMTCs for local projects
 - Currently, the vast majority of NMTCs are held by national banks/other institutions, and Seattle projects must compete nationally to obtain tax credits
- OED will ensure that projects receive the best terms --- flexible underwriting standards, low-interest, high equity investments

What is the City's financial cost for participating in the NMTC program?

- OED's participation in the program would have NO budget impact to the City
 - City's allocation of NMTCs will leverage private investment
 - City will not invest any funds into NMTC projects (except for possibly HUD Section 108 loan proceeds or other federal sources)
 - City will not provide any guarantee or pledge any collateral/security for NMTC projects
 - Legal, asset management and other transactional costs will be absorbed by the individual projects

What is the City's legal risk for participating in the NMTC program?

- City will act through a separate legal entity – Seattle Investment Fund LLC – that will be solely responsible for any legal liability

Does OED have experience with the NMTC program?

- OED has gained significant experience with the NMTC program through investments dating back to the inception of the program
- NMTC projects include
 - 17th and Jackson Project (CADA mixed-use project)
 - Bush Hotel (SCIDPDA commercial renovation)
 - Compass Center
 - Cadillac Hotel
 - LaSalle Project (Pike Place Market PDA renovation of housing and senior center)
 - New Central Project (SCIDPDA mixed-use renovation)

Does OED have capacity to manage a NMTC allocation?

- OED staff already has experience in performing financial structuring/underwriting with NMTCs as a financing source; NMTC allocation will be folded into our existing outreach efforts
- OED will use third party consultants to assist us in evaluating, closing and performing asset management of NMTC projects; consultant costs will be absorbed by individual projects